



**MCI Telecommunications  
Corporation**

1801 Pennsylvania Avenue, N.W.  
Washington, D.C. 20006

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June 19, 1995

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JUN 19 1995

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Mr. William F. Caton  
Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, N.W.  
Washington, D.C. 20554

DOCKET FILE COPY ORIGINAL

**Re: In the Matter of The National Exchange Carrier Association  
Inc. Proposed Revision of Part 69 of the Commission's Rules  
to Allow for Incentive Settlement Options for NECA Pool  
Companies, RM 8389**

Dear Mr. Caton:

Enclosed herewith for filing are the original and four (4) copies of MCI Telecommunications Supplemental Comments regarding the above-captioned matter.

Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI Supplemental Comments furnished for such purpose and remit same to the bearer.

Sincerely yours,

Don Sussman  
Regulatory Analyst

Enclosure  
DHS

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**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554**

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**JUN 19 1995**

**In the Matter of:**

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

**The National Exchange Carrier Association Inc.  
Proposed Revision of Part 69 of the  
Commission's Rules to Allow for Incentive  
Settlement Options for NECA Pool Companies**

**RM 8389**

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**SUPPLEMENTAL COMMENTS**

MCI Telecommunications Corporation ("MCI") respectfully submits its supplemental comments regarding the above-referenced incentive settlement option, proposed by the National Exchange Carrier Association Inc. ("NECA") on May 15, 1995. The proposal modifies a plan originally submitted by NECA on November 5, 1993.<sup>1</sup> NECA proposes a modified plan that would allow small carriers to increase their earnings while maintaining their membership in NECA pools. Essentially, rather than reporting expenses, investment, and billed revenue on a monthly basis, and then receiving a fixed average return, as is currently the practice, NECA proposes to allow carriers selecting the incentive plan to report demand figures monthly, for which they will receive a fixed

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<sup>1</sup>The National Exchange Carrier Association Inc. Proposed Revision of Part 69 of the Commission's Rules to Allow for Incentive Settlement Options for NECA Pool Companies, RM 8389, Filed November 5, 1993.

settlement rate. This fixed settlement rate would be derived by multiplying the small carriers' historical costs by one minus a productivity factor (e.g.,  $1.0 - 0.65$  or 99.35%). This settlement rate would be computed bi-annually.

Carriers under the proposed incentive plan would receive from the pool an amount that reflects their monthly reported demand times the fixed settlement rate. Carriers selecting the proposed NECA incentive plan would be eligible to leave the incentive plan, returning to the current rate-of-return environment, after two 2-year terms.

NECA's proposal raises serious concerns over (1) the reasonableness of the proposed fixed settlement rate; (2) the fairness of the proposed productivity factor ("Customer Dividend"); and, (3) the absence of sharing or other mechanisms, which are required to protect ratepayers until an accurate, cost-based productivity factor and settlement rate can be calculated. The Commission should not feel compelled to act upon NECA's proposal until NECA has met its burden of demonstrating that its proposals are reasonable and in the public interest. At this time, NECA clearly has not met this burden.

There are many short comings with NECA's proposed incentive plan. First, NECA proposes to base the fixed settlement rate for the first 2-year period on carrier's costs for the last 12 months. There is no evidence presented by NECA that these carriers' recent costs and investment activity are representative of these carriers' typical costs. It is quite possible that the costs incurred by these carriers in the last 12 months are atypical of those costs usually incurred. Until

NECA can demonstrate that its proposed settlement rate accurately reflects the costs of carriers selecting incentive regulation, too great an opportunity exists for carriers to earn excessive profits at the direct expense of captive ratepayers.

Second, NECA proposes that the Commission assess a productivity factor of 0.65 percent on carriers that select the incentive plan. This factor would lower a company's settlement rate by 0.65 percent. NECA argues that the incentive plan would freeze settlement rates for two years, which implicitly establishes a productivity offset equal to the rate of inflation for these small companies. NECA claims that by requiring these carriers to lower their settlement rate by 0.65 percent, in effect, the Commission would be levying a 3.65 percent "Customer Dividend."

NECA's proposed 0.65 percent productivity measure was derived by taking half the difference between the highest and lowest productivity factors which the Commission established for Tier 1 price cap carriers in the April 7, 1995 Price Cap Performance Review Order.<sup>2</sup> NECA has not made any effort to tie the productivity factor to the actual productivity performance of its member carriers. NECA's proposed productivity offset is arbitrary, capricious, and most likely, drastically understated. If the Commission is serious about offering small carriers incentive regulation, then it must carefully analyze these carriers'

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<sup>2</sup>Price Cap Performance Review Order for Local Exchange Carriers, CC Docket No. 94-1, First Report and Order, released April 7, 1995 ("Price Cap Performance Review Order").

historical productivity performance. NECA's proposal has no basis in law or policy, and is completely detached from any sound economic theory.

Third, NECA argues that its plan requires small carriers to absorb the higher costs associated with increased inflation rates. They suggest that, since the average rate of inflation was 3 percent for the last three years, its pool members would effectively experience a 3.65 percent productivity offset. While this may be true, there is no valid reason to assume that the rate of inflation will remain at 3.0 percent, especially in an industry of declining costs.

Finally, given the complexity of calculating an accurate settlement rate and productivity factor for pool members electing incentive regulation, MCI urges the Commission to require NECA to implement a sharing mechanism similar to the one it has imposed on the large price cap carriers, if it decides to allow an incentive option for the NECA pool members. MCI recognizes that this, too, is complicated --especially in a "pool environment." However, given the real possibility of pool members grossly overearning under incentive regulation, MCI urges the Commission to impose a mechanism that protects the interests of captive ratepayers.

The Commission should dismiss NECA's proposed incentive settlements plan. There is no valid reason why small carriers that seek more pricing flexibility cannot select one of the many plans that are already available to them. The LECs can leave the NECA pool and charge rates based on their own costs, select incentive regulation as defined by Section 61.50 of the Commission's

rules, or they can select one of the three alternative plans offered the Tier 1 price cap carriers. There is no need for the Commission to undertake such a complex assignment as creating incentive regulation in a pool environment. The above-mentioned alternatives are readily available, protect the public interest, and have proven to be effective in the market place.

Respectfully submitted,  
MCI TELECOMMUNICATIONS CORPORATION

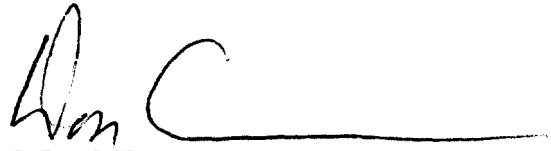
A handwritten signature in black ink, appearing to read 'Don Sussman', followed by a long, sweeping horizontal line.

Don Sussman  
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June 19, 1995

**STATEMENT OF VERIFICATION**

I have read the foregoing and, to the best of my knowledge, information, and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on June 19, 1995.

A handwritten signature in black ink, appearing to read 'Don C', followed by a long horizontal line extending to the right.

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# **CERTIFICATE OF SERVICE**

**I, Stan Miller, do hereby certify that copies of the foregoing Supplemental Comments, were sent via first class mail, postage paid, to the following on this 19th day of June.**

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